

## DEBT MARKETS

### Global Update

The US bond yield traded in a narrow range of 3.70-3.72% last week. Though the week started weak, the growing belief among economist that the recovery is slowing led to some buying in bonds ahead of Fed meeting next week on policy rates. The 10yrs benchmark bond closed at 3.70% slightly higher week-on-week basis. The yield gap between 2yrs and 10yrs note narrowed on expectation that Fed may continue the soft interest rate regime for extended period of time as the wholesale price fell 0.2% in February and industrial output remained unchanged in the same month.

### Domestic

Tracking US yield Indian bond market also saw some bearishness with 10yrs benchmark crossed 8.01%. However the main concern on inflation (expected to double digit), borrowing calendar (expected to be front loaded), RBI stance on policy rates in April meet this year continue to dampen the sentiments. Also the growing inflation in china and tightening of monetary policy fuelled the bearish sentiments. The 10yrs benchmark bond closed the week at 8.00%.

### CALL & CBLO

The liquidity condition in market remained comfortable with Rs. 65K-70K in LAF in the start of the week, however it dropped to 29K on tax outflow this month. CBLO range for the week was 2.95%-4.30%. The range for the Mibor was 3.30%-3.31%, while call ranged between 3.00%-4.50% on tight liquidity condition.

### Government Securities and Treasury Bills

The G-Sec market remained bearish as the market factored in double digit inflation, front loaded borrowing schedule,

and tightening of loose monetary policy. The inflation on primary article was 15.8% against 15% last week remained the concern. Also the impact of fuel price hike on overall inflation has puts the inflation number high with 11.38%. The IIP data for the month of January was 16.7% with manufacturing sector growing at 17.9%. While 10yrs bond closed the week at 8.00%, the T-Bills auctioned during the week for 91 days was 4.34%, and 5.12% higher than the earlier auction.

### Corporate Bonds

The corporate bond yield was range-bound for the last week as the volumes were still missing on the corporate bonds. The 5 yrs benchmark bond traded around 8.60% while 10 yrs benchmark bond traded around 8.90%.

### Rupee

Indian Rupee traded in the narrow range of 45.41-45.54. Opening the week at 45.43, it closed the week at 45.45 appreciating on week on week basis by 0.72%.

### Fund Manager's Comment

The trading interest was lacking in the G-Sec markets, with the average volume falling to around Rs 5000 Crs. The traders are waiting for the auction calendar to be announced later this month, before building any significant trading positions. The liquidity conditions remain comfortable. Thus the 6m-12m yields came down by 5-10 basis points, due to the liquidity comfort. Short end yield curve is nearly flat, as very short term rates (one month CD) moved up induced by Mutual Fund selling pressure. The 10 yrs benchmark paper is likely to trade in a range of 7.95% – 8.05% this week.

### Market Indicators as on 12th March, 2010

|                | 12/03/2010 | 5/03/2010 | % change |
|----------------|------------|-----------|----------|
| INR/USD        | 45.4500    | 45.6150   | -0.36    |
| Inflation      | NA         | NA        | NA       |
| Oil (\$/bbl)   | 81.24      | 81.5      | -0.32    |
| Gold (\$/oz)   | 1101.90    | 1134.65   | -2.89    |
| 10 years G-Sec | 8          | 7.975     | 0.31     |
| 10 years AAA   | 8.9000     | 8.9083    | -0.09    |
| Call Money     | 3.35       | 3.35      | 0.00     |

Source: Bloomberg

## EQUITY MARKETS

Indian shares rose for the fifth straight week, as Sensex was up by 177 points and Nifty was up by 48.3 points during the course of the week. In the percentage term, Sensex gained 1.01% while nifty gained 0.95%. The volume during the week was on lower side but positive buying from the FII kept the market on its positive trends. Foreign institutional investors (FIIs) continue to buy stocks after the budget. BSE mid cap and small cap indices underperformed the market as they lost 0.34% and 0.20% respectively.

On the sectoral front, IT sector was the highest gainer at 1.97% followed by Bankex (1.11%) and FMCG (1.06%). Among the loser, Metal sector lost 2.09%, Power sector lost 1.62% while Realty and Cap-goods lost 1.31% and 1.11% respectively. Among stocks, Ambuja Cement gained 6.59%, M&M gained by 5.96% while HUL lost 9.71% and Suzlon Lost 5.90%.

Credit growth improved marginally to 15.8% as on 26 February 2010, driven by improved lending activity during the busy year-end season coupled with rising credit demand from corporate houses. The credit base increased by Rs377 bn during the fortnight, the third highest increase in FY10. Credit growth now is close to the 16% target projected by the RBI. During the fortnight, net banks credit increased by Rs376.5bn (Rs213.07bn in corresponding fortnight year ago) taking the cumulative bank credit to Rs30893bn.

The index of industrial production (IIP) for January 2010 grew by 16.7% over last year, fuelled by 17.9% growth in the manufacturing index (its principal component) and a robust 14.2% growth in mining. The capital goods component of the index grew at a spectacular 56% in January and was a major contributor to the buoyancy in the aggregate index. The strong performance on the IIP front reflects the buoyancy

in the economy which may help RBI to take decision on the interest rate during its April Policy.

A bill, proposing to cut the Centre's shareholding in the State Bank of India (SBI) from 55% now to 51% and to permit the bank to raise more capital from the market through preference shares, was introduced in the Lok Sabha on Monday. This will help SBI to raise capital via equity as well as preference share. This will increase their much required capital base.

On the global front, China's inflation reached a 16- months high, industrial output climbed and new loans exceeded forecasts, adding to the case for the government to pare back stimulus measures. China's lending fell in February after the government told banks to limit credit growth and raised reserve requirements. Banks extended 700.1 billion yuan (\$103 billion) of local-currency loans, down from 1.39 trillion yuan in January and 1.07 trillion yuan a year earlier.

Japan's economy expanded less than initially estimated in the fourth quarter as companies pared spending and stockpiles as deflation deepened. Gross domestic product rose at an annual 3.8% pace, slower than the 4.6% reported in preliminary figures last month, the Cabinet Office said today in Tokyo. The GDP deflator, a gauge of price trends, fell a record 2.8 %.

The market during the next week is expected to remain in the narrow range and should take further cues from the Advance tax numbers which should start flowing in by Monday. The next big trigger for the market would be Q4 earnings as well as RBI's April policy Review. We expect market to take some time to build consensus on these events, till then it should remain in a tight range.

### Taurus Benchmark Indices Movement

| Indices             | 12/03/10 | 05/03/10 | Points change | % change |
|---------------------|----------|----------|---------------|----------|
| BSE Sensex          | 17166.62 | 16994.49 | 172.13        | 1.01     |
| S&P CNX Nifty       | 5137.00  | 5088.70  | 48.30         | 0.95     |
| BSE 100             | 9115.55  | 9078.98  | 36.57         | 0.40     |
| BSE 200             | 2157.35  | 2151.67  | 5.68          | 0.26     |
| CNX Midcap          | 7503.10  | 7584.70  | -81.60        | -1.08    |
| S&P CNX 500 Shariah | 1247.27  | 1246.04  | 1.23          | 0.10     |

### Weekly FII & MF net flows (Rs. in crs.)

| 05/03/10 to 11/03/10 | Equity   | Debt    |
|----------------------|----------|---------|
| FII                  | 7019.10  | 857.10  |
| MFs                  | -1281.40 | 7215.90 |

Source : SEBI site

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